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Invoice Accuracy:
2002 Industry Survey & Benchmarks

by

Prime Consulting Group, inc.

for the

Grocery Manufacturers of America

GMA is the world's largest association of food, beverage and consumer product companies. With U.S. sales of more than $460 billion, GMA members employ more than 2.5 million workers in all 50 states. The organization applies legal, scientific and political expertise from its member companies to vital food, nutrition and public policy issues affecting the industry. Led by a board of 42 Chief Executive Officers, GMA speaks for food and consumer product manufacturers at the state, federal and international levels on legislative and regulatory issues. The association also leads efforts to increase productivity, efficiency and growth in the food, beverage and consumer products industry.

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The Quaker Oats Company
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GMA Provides Additional Invoice Accuracy Services

In addition to publishing this report periodically, GMA holds seminars and other meetings for member companies interested in improving invoice accuracy.

Contact Dan Bushey of the GMA staff for further information at 202.337.9400 or dbushey@gmabrands.com

Executive Summary

This report contains results from the Grocery Manufacturers of America's 2002 invoice accuracy survey. Selected trend data from the two previous surveys are also reported.

Although fewer companies responded to the 2002 questionnaire, they represent more sales of consumer packaged goods than respondents of the previous survey. Industry consolidation over the two-year span between surveys appears to be driving this trend.

Recognizing that invoice deductions cannot be totally isolated from invoice accuracy, GMA decided that this year's survey would continue the overall objective to explore both topics. The intent is to provide individual companies with useful information about each topic that can be independently applied, however diverse the applications may be.

This year, more surveyed companies than in the past (64 percent) report using authorized invoice deductions as a preferred method of payment to customers. Since authorized or planned deductions co-exist in the full industry sample, it is difficult to conclude if the industry is becoming more or less efficient by simply looking at the overall average deduction level of 9.9 percent. While this is the highest average reported since the first year of this survey, it represents higher efficiencies for some companies, lower efficiencies for others, and a combination for a third group of companies.

While the primary causes of deductions (65 percent) continues to be promotions, billbacks and pricing errors, other causes such as shortages/damages, coupons and penalties comprise the next highest (17 percent) group of causes, which is also similar to the previous survey.

This year, the questionnaire asked for comments specifically on the effect of coupons on invoice deductions. Since coupon usage varies among survey participants, comments about coupons are similarly inconsistent. However, a majority of those commenting report seeing increased numbers of smaller batches of coupons, resulting in higher handling costs and additional deductions.

Another new question asked respondents this year about future plans for e-commerce applications. Surveyed companies:

- Plan to increase use of EDI.
- Plan to use data synchronization or currently do.
- Plan to use UCCnet or currently do.

Other companies are in the initial stages of investigation of invoice accuracy. They report defining the problem and building awareness of it in their companies as their current focus of attention.

No common industry practice exists, however, for assigning responsibility for improving invoice accuracy. This year's survey participants, similar to past survey samples, report a variety of functional divisions leading improvement initiatives within their companies.

Regardless of experience level or responsible division, nearly all surveyed companies are currently not satisfied with their level of invoice accuracy. This suggests that efforts to improve invoice accuracy will continue in the near term.

"Best of Breed"

Four invoice deductions benchmark measures are reported in this survey: deduction dollars as a percentage of annual invoiced sales, number of deductions as a percentage of total invoices, monthly open deductions as a percentage of receivables balance, and monthly open deductions as a percentage of new deductions last year. This report focuses on the top 10 companies for each of these four benchmark measures.

- Two companies are in all four top 10 lists.
- Five companies are in three lists.
- Six companies are in two lists.
- Five companies are in one list.

One company missed being in all four top 10 listing by one position, i.e., they were number 11 on the fourth list. Looking at the seven companies in three or four top 10 lists:

- All use EDI purchase orders and give this tool top marks for increasing invoice accuracy.
- All also use EDI invoicing but report mixed results for increasing invoice accuracy.
- Four use synchronization of price and promotion data with customers and give this tool top marks for increasing invoice accuracy.

Looking at the top companies ranked by one benchmark measure – lowest rate of deductions as a percent of sales – the findings are:

- Four measure invoice accuracy as product is shipped to customers (on the backend).
- Three measure it as a match with the customer's P.O. (on the frontend).
- One measures both backend and frontend.
- Two do not measure invoice accuracy.

While companies report a direct connection between invoice accuracy and deductions, several other reasons exist for the occurrence of deductions. However, this look behind the numbers for the "best of breed" subset of this survey spotlights business practices that other companies may want to consider to improve invoice accuracy and reduce invoice deductions.

About The Survey

Background

The Grocery Manufacturers of America (GMA) has published industry benchmarking reports on invoice accuracy issues since 1997. In 2001, GMA determined that the invoice accuracy survey could be completed every two years, changing from the established annual routine. Therefore, no survey was conducted in 2001.

Also beginning with this report, paper-based publication is discontinued. This report can be viewed electronically or downloaded and printed from GMA's website (www.gmabrands.com).

To encourage participation, the survey questionnaire was streamlined this year, based on feedback from prior surveys. In addition, questions were deleted, modified or added to incorporate changing business practices within the industry.

The findings in this benchmarking report are developed from information provided by the companies responding to the survey and may not reflect what other companies experience. In addition, companies responding to surveys of this type are not the same year by year. Additionally, in some cases, companies do not answer every question. Prime Consulting Group, inc. developed the 2002 survey following techniques that were similar, but not necessarily identical, to those used in previous reports.

Methodology

GMA commissioned Prime Consulting Group, inc. to conduct a confidential survey of GMA member companies. The 2002 questionnaire was distributed in January and contained two main sections, focusing on the key benchmarking areas:

- Invoice accuracy
- Invoice deductions

Each section of the questionnaire asked for specific data or information relating to invoice accuracy and deductions. PCi assembled the responses and conducted an in-depth analysis.

This report contains aggregations of the 2001 data provided by the respondents. When trend data are shown, the data labels reflect the year of the data, not the year of the report in which they were first shown (i.e., 1999 data were shown in the 2000 report and so on).

All individual company data and information are confidential.

Definitions

Over the last few years of this survey, the respondents developed the following definition, which was used in this year's survey.

An invoice is defined as accurate when the customer's purchase order completely matches the manufacturer's invoice, specifically in the following areas:

- *Prices*
- *Allowances*
- *Number of Cases*
- *Terms of Sale*
- *U.P.C.s*

In past surveys, respondents have pointed out that a manufacturer's highest priority should be to ensure that the invoice is correct in the above areas for items shipped. There can be several reasons why a manufacturer does not ship exactly what a customer orders. Therefore, survey respondents conclude, improved communications about differences between the purchase order and the invoice before product is shipped will help improve invoice accuracy and reduce deductions related to inaccuracy.

This report contains several invoice accuracy and deduction measurements that follow typical convention for industry benchmark surveys.

- *Survey Average* – The survey average is defined as the sum of all responses divided by the number of responses. This mean average is used for many of the report findings. Minimum and maximum data points are included in all samples in this year's report.
- *Top Companies Average* – In some areas of the report, the average performances of the top survey respondents are also shown. The top companies average represents those companies performing at the top of the total survey responses for a particular measure. For example, the top companies average of survey respondents with deductions as a percentage of sales would include the companies in the survey with the lowest level of this measure. Top company results are included to provide another benchmark for companies for whom the total survey average may not be appropriate.

In the 2002, 2000 and 1999 reports, survey *averages* as described above, were used in findings. In prior years (1998 and 1997), the *median* was used. In all past surveys, a quartile measure was used for the top company results (i.e., the top 25 percent of the sample). However, since this year's survey generated fewer responses than past surveys, the top 10 are used to provide a statistically similar group of companies to compare with the top quartile measure in prior years' reports.

Respondent Profile

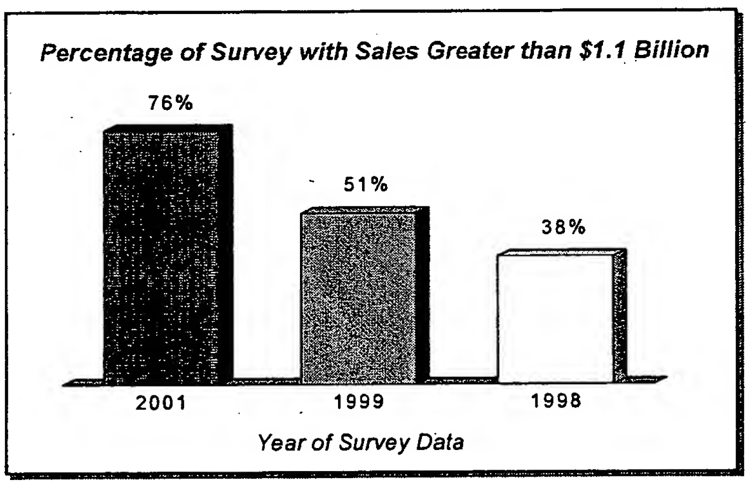
Twenty-five companies responded to the questionnaire. The average company reports:

- $3.4 billion in annual invoiced sales in 2001 (North America only).
- $212 million of monthly accounts receivable balances.
- 208,000 invoices issued annually.
- 52,000 remittances received annually.

Although fewer companies responded to the 2002 questionnaire than in the past, these companies have greater average sales and greater total sales than those in prior years. The other company average statistics shown above are also higher for this year's participants. This is driven in part by industry consolidation. Fully one-third of the previous survey's respondents were involved in major mergers and acquisitions by the time this year's survey was mailed.

This current survey sample represents a significantly larger number of companies with sales of more than $1.1 billion compared with prior years' samples. In the previous survey, about half of the companies had sales greater than $1.1 billion, compared with 76 percent this year. Prior to 1999, a greater number of smaller–sized companies participated in the survey.

This year, all companies report that most of their products are warehouse-delivered, i.e., no company's products are delivered solely by direct-store-delivery (DSD). Fifty-two percent of companies report using a combination of warehouse and direct-store-delivered methods. For companies using DSD to distribute products, an average of 4 percent of total sales are delivered in this manner.



Fifty-six percent of respondents report that they measure invoice accuracy, which is similar to the last survey's 54 percent, and much lower than the 73 percent in 1998. These data do not necessarily reflect a trend that fewer companies are measuring invoice accuracy than in prior years. They are simply a reflection of the business practices of the companies participating in the surveys. In addition, companies that do not measure invoice accuracy directly may measure related areas, such as invoice deductions. This measurement may prompt them to take actions similar to those of companies measuring invoice accuracy.

Although this survey involves fewer respondents than prior years, in general the survey results either held consistent with prior years or show recognizable trends.

Invoice Accuracy

Measuring Invoice Accuracy

Fifty-six percent of respondents report that they measure invoice accuracy, consistent with the 54 percent that reported measuring this in previous surveys. Of those companies measuring invoice accuracy:

- Fifty percent measure invoice accuracy as a *percentage of critical purchase order (PO) elements* on customer POs matching the manufacturer's internal price and deal files. Thirty-seven percent reported using this measure in the previous survey.
- Fifty percent use *dollars deducted as a percentage of sales* as a measurement. This rate is lower than the 63 percent that previously reported using this measure.
- Thirty-six percent use *invoice deductions as a percentage of total invoices*. In the previous survey, 42 percent reported using this measure.
- No companies report using the *percentage of customer remittances received* that is automatically matched to open invoices and/or open credits on the manufacturer's system. In the previous survey, 21 percent of companies reported using this measure.

Sixteen percent of companies report using invoice accuracy measurements that are not mentioned in prior surveys. These measurements include:

- Total number of deductions.
- Manual review of selected customer accounts.
- Aging deduction reports.

Of those companies that measure invoice accuracy, 64 percent report measuring *purchase order accuracy on the frontend* (as originally received by their company). Fifty-seven percent report measuring *invoice accuracy on the backend* (as the invoice is sent to the customer). Twenty-one percent report using both methods to measure invoice accuracy.

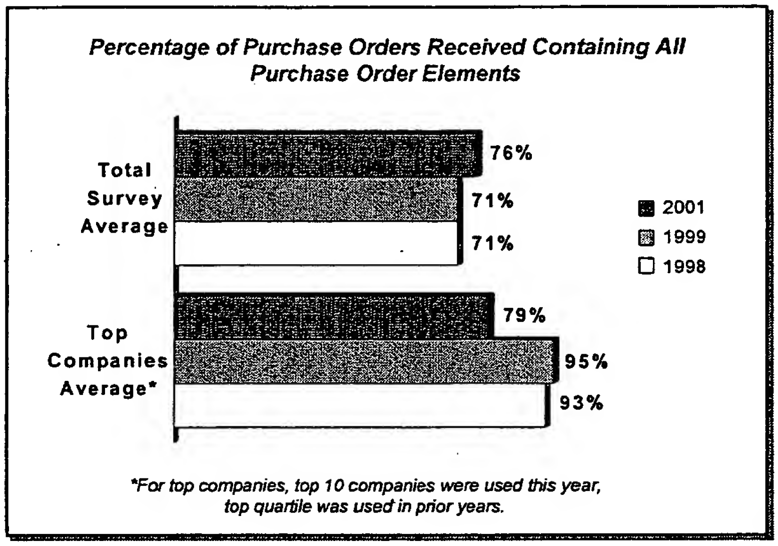
Among the top companies in this year's survey with the lowest ratio of invoice deductions to sales, eight of 10 measure invoice accuracy. Five of them measure as the invoice is sent to the customer.

Purchase Order Matching

Surveyed companies received an average of 178,000 purchase orders in 2001. This is 41 percent greater than the number of POs reported by the previous survey participants.

Companies report 76 percent of customer POs received contain all critical elements (i.e., U.P.C., quantity, price and allowances).

Sixty-six percent of all CRP customers orders received include all of the critical elements for matching – slightly higher than the 60 percent reported last time.



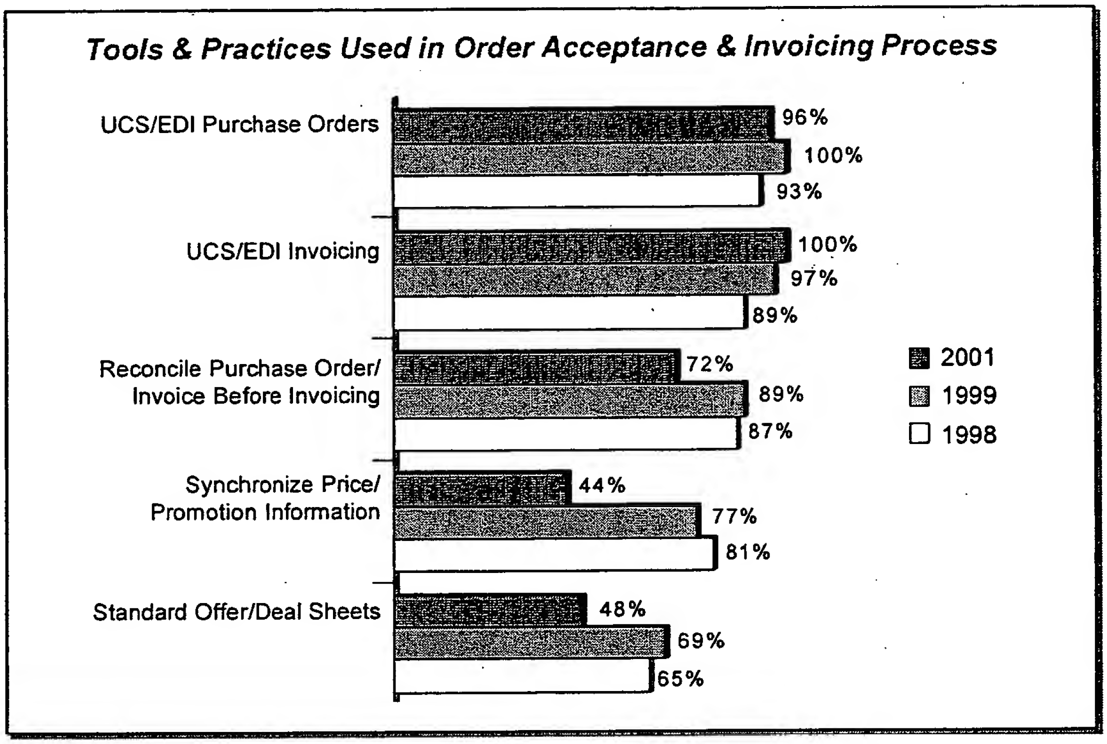
Those companies matching purchase order elements before processing an order or invoice, match on price, U.P.C., and quantity. While U.P.C. and quantity information appear on an average of 96 percent and 100 percent of all POs, respectively, price information appears on only 84 percent – nearly identical to the previous survey.

Purchase Order Element	*Percentage of Companies Matching Element*	*Percentage of Purchase Orders Containing Element*
Price	100%	84%
U.P.C.	96%	96%
Quantity	92%	100%
Bill-to/Ship-to	88%	95%
Allowance	84%	76%
Ship/Delivery Dates	68%	99%
Purchase Order Number	60%	98%
Freight/Transportation Info.	40%	63%
Payment Terms	32%	83%

Although survey respondents indicate that price matching is important, the percentage of customer POs containing price data has not increased in the two years between the most recent surveys.

Order Acceptance & Invoice Processing

This year, the general upward trend of companies using all surveyed tools and practices as part of their routine invoice processing has reversed. Only UCS/EDI purchase orders and UCS/EDI invoicing do not show significant declines since the previous survey.



One explanation for the declines is that the two highly used tools – UCS/EDI purchase orders and UCS/EDI invoicing – are increasing as common practices in the business community.

Rank of Effectiveness in Increasing Invoice Accuracy

1. UCS/EDI purchase orders.
2. Synchronization of price and promotion data with customers.
3. UCS/EDI invoicing (tie).
3. Resolution/reconciliation of purchase order/invoice discrepancies prior to sending invoice (tie).
5. Electronic exchanges.

However, when asked to rank these tools for effectiveness in increasing invoice accuracy, respondents rated synchronization as number two, above UCS/EDI invoicing.

Causes for Inaccurate Invoices

The causes for inaccurate invoices in 2001 are ranked in identical order with those of the previous survey. Overall ranking is determined by frequency of mention and individual ranking for each cause. While the actual sequence varies by individual company, almost all companies ranked allowances, pricing and number of cases in the top three causes of inaccurate invoices.

Cause of Inaccurate Invoices 2001 & 1999	*Percentage of Companies that Match**	*Percentage of POs that Contain Element**
1. Allowance Differences	84	76
2. Pricing Differences	100	84
3. Quantity Differences	92	100
4. U.P.C. Differences	96	96
5. Terms of Sale Differences	32	83

** Data are from 2001.*

A very low level of survey participants (32 percent) match terms of sale information on POs with their invoices.

The top two causes, which have been reported in these ranked positions since 1998, show a disparity between the level of attention from manufacturers and the data available on purchase orders.

Obstacles in Achieving Invoice Accuracy

The top obstacles preventing companies from achieving invoice accuracy in 2001 remain consistent with obstacles reported in the previous survey. The following list is ranked by frequency of mention:

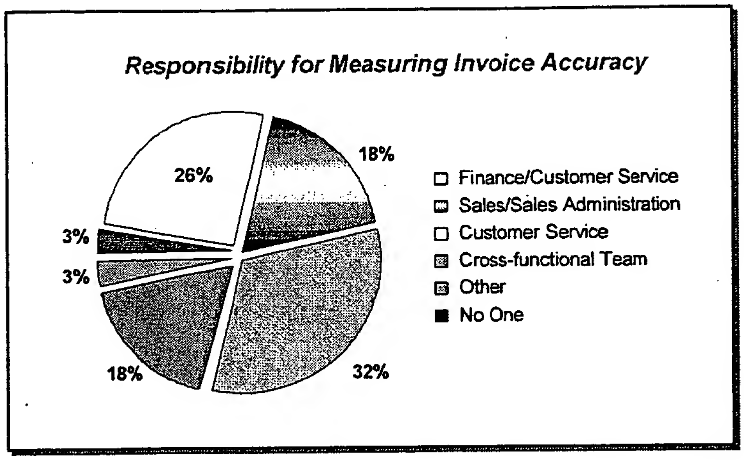
- Complexity of pricing, promotions and /or deal structures.
- Poor communication with customers, brokers and internal departments within respondent organization.
- Lack of information synchronization with customers and brokers.
- Respondent and customer systems limitations.

A few respondents also said shortages and in-transit damages affect invoice accuracy.

Top companies report a similar perspective with one notable exception: information synchronization is not an obstacle for them.

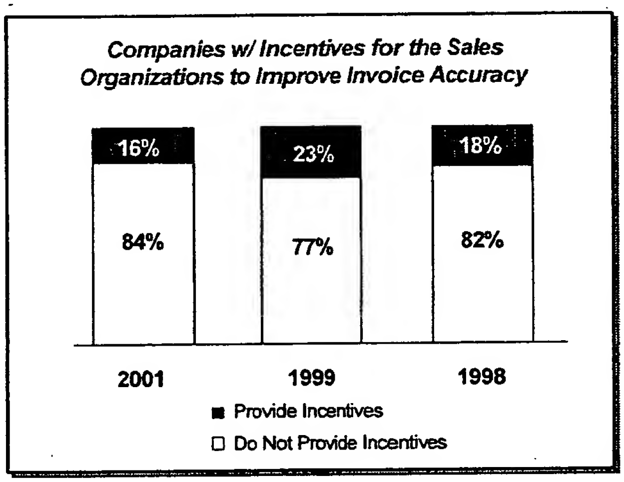
Managing Invoice Accuracy

Finance and customer service departments are most often mentioned as being responsible for measuring and improving invoice accuracy in this year's survey. Sales and cross-functional teams also measure invoice accuracy but less frequently.



In prior surveys, these responsibilities were reported separately but showed parallel results. The diversity of responses indicates that no common industry practice exists among these companies.

Sixteen percent of this year's companies provide incentives to sales organizations to improve invoice accuracy.



Companies indicate that sales incentives are most often *not* provided because:

- Invoice accuracy is not the responsibility of sales.
- Invoice accuracy is not a high priority within the company.
- It is too difficult to measure invoice accuracy or manage sales incentives for invoice accuracy.
- Management does not support incentives to sales.
- Improving invoice accuracy is already a responsibility of sales.

Half of the companies that report providing incentives to the sales organization for improving invoice accuracy include it as a measure in performance bonuses. The other half reward for declines in deduction balances.

Improving Invoice Accuracy

Survey respondents report making several types of changes that have increased invoice accuracy for their organizations. Ranked by frequency of mention, these actions include:

- Upgrading information systems and increasing the use of EDI communications.
- Implementing frontend purchase order matching and increasing the use of data synchronization.
- Improving analytics related to invoice accuracy and improving reporting capabilities.
- Holding sales and account teams responsible for improving invoice accuracy.
- Improving internal and external communication of price and promotion changes and stressing the importance of invoice accuracy.

A few respondents also mentioned forming cross-functional teams to improve and manage the invoice process.

Short-term plans to improve invoice accuracy mentioned most often are:

- Improving invoice accuracy measurement capabilities.
- Increasing internal awareness of the invoice accuracy problem, including forming a team to monitor and to take steps to solve the problems causing inaccuracy.
- Simplifying pricing and promotional structure.
- Improving communications with customers that highlight the importance of invoice accuracy.
- Updating systems and implementing EDI communications.

Long-term strategies to improve invoice accuracy mentioned most often are:

- Improving information systems and implementing more EDI communications.
- Improving communications with the customer.
- Simplifying pricing and promotional deal structures.
- Increasing synchronization and data matching efforts.
- Continuing to monitor with enriched analytical reporting and measures.

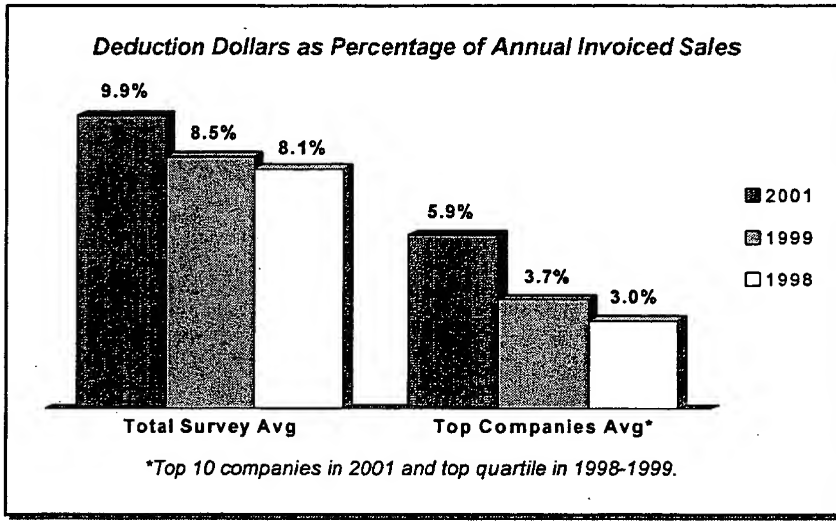
The improvement strategies reported by this year's companies are similar to those reported in previous surveys. One noticeable difference is a more common near-term focus on getting started by establishing awareness of the problem. In addition, this year's respondents are less likely to be engaged in near-term IT solutions, but they report a similar long-term focus .

Invoice Deductions

Deduction Measurements

The deduction level for all companies in this survey averages 9.9 percent. The deduction level is defined as the dollar amount of new deductions as a percentage of total annual sales.

This is an increase over previous levels. This year, 60 percent of the survey sample has deduction levels greater than 10 percent. In the previous survey, 34 percent of the survey sample had deduction levels greater than 10 percent. The top companies' deduction levels also show a marked increase since the last survey.

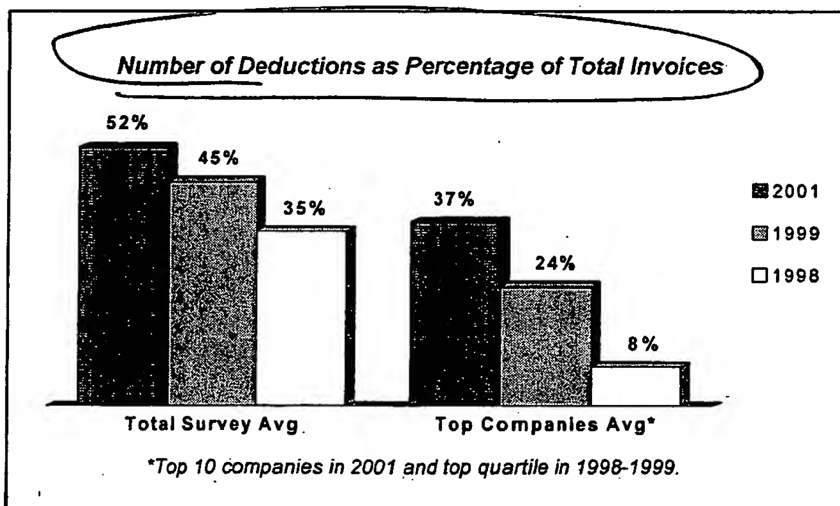


*Top 10 companies in 2001 and top quartile in 1998-1999.

Deduction Frequency

This year, the frequency of deductions is also higher than in the previous survey – 52 percent compared to 45 percent. Deduction frequency is defined as the total number of deductions as a percentage of the total number of invoices.

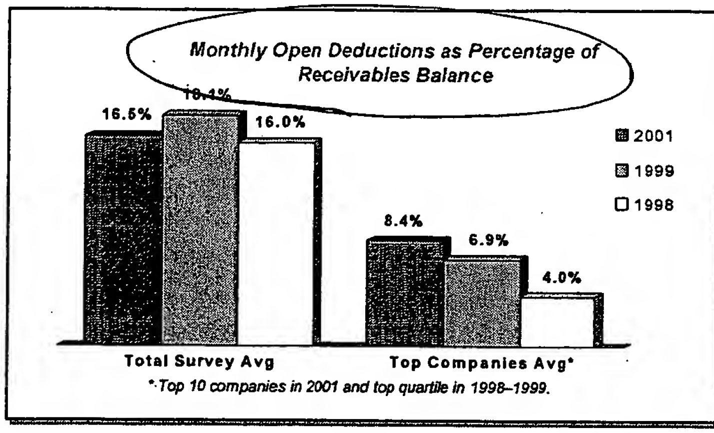
The upward trend in deduction frequency is also visible when comparing this year's top companies with previous surveys. Consistent with past surveys, top companies report lower percentages. However, their data are also rising. This year, the range of deduction frequency percentages is smaller than in previous years, with the minimum reported value being significantly higher.



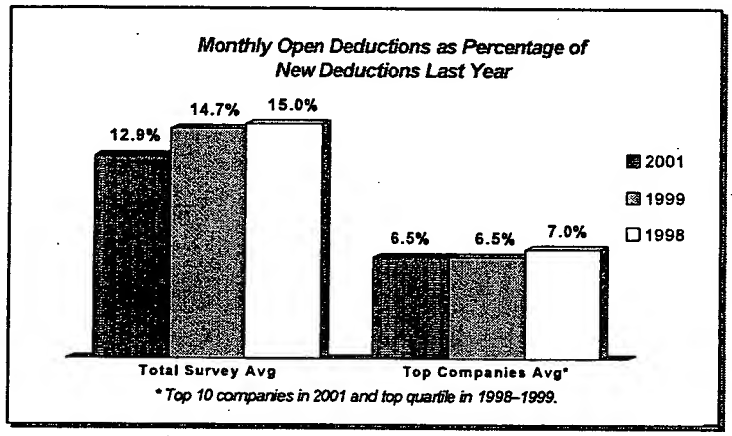
*Top 10 companies in 2001 and top quartile in 1998-1999.

Open Deductions

Looking at data from the most recent surveys, the relative size of deductions appears to be more consistent in another area of measurement – average monthly open deductions as a percentage of average monthly receivables balances, including deductions.



This measure may be more helpful as an industry benchmark to companies that use a rolling average or a current open percentage metric. These data indicate that, even for the top companies (i.e., those with the lowest levels of this measure), the percentages have been steadily rising.



A slightly different measure – average monthly deductions as a percentage of new deductions last year – shows a decline in this year's survey.

For the top companies, the average of this measure has not changed over the three latest surveys.

This year companies report an increase in the percentage of deductions that are 30 days old or less. The other deduction age brackets either remained the same or decreased. This suggests that these companies are resolving their deduction more rapidly.

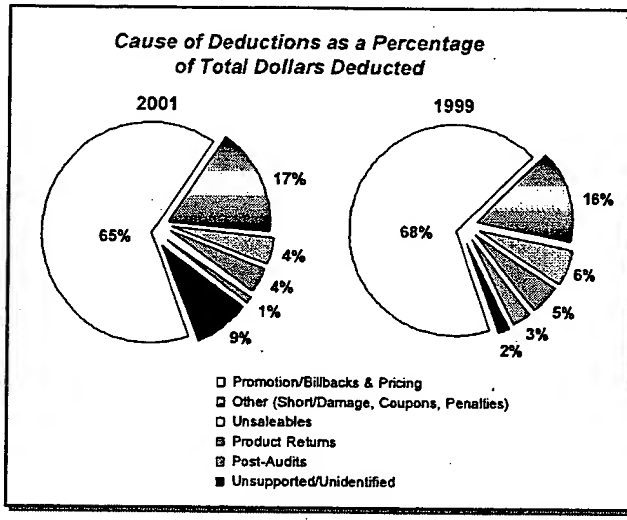
Average Percentage of Open Deduction Dollars for a Given Deduction Age Bracket

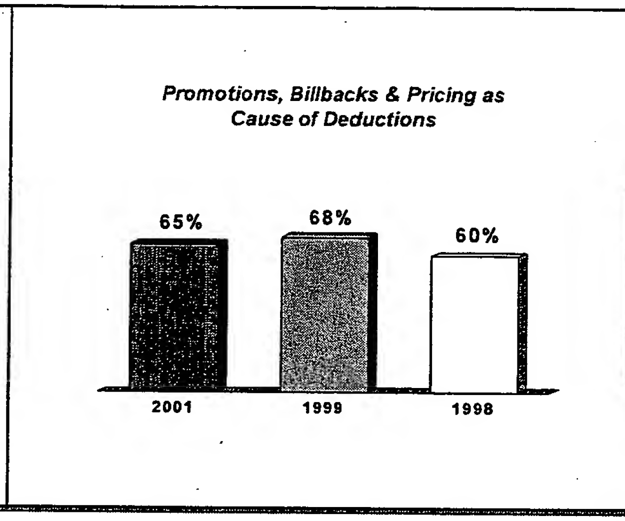
No. of Days	2001	1999
< 30	44%	35%
31–60	19%	19%
61–90	9%	13%
91–120	9%	9%
120+	19%	24%

Another factor that may contribute to the reduction in the number of older deductions is the fact that survey respondents report an average of 34 percent of deductions are unidentified when received. This is a decrease from 45 percent in the previous survey. An increase in deduction back-up information means that manufacturers spend less time researching deductions, reducing the amount of time they remain open.

Causes of Deductions

Promotions, billbacks and pricing continue to be the primary causes of deductions for companies participating in this years' survey. The largest percentage increase in deductions this year comes from unsupported or unidentified deductions.

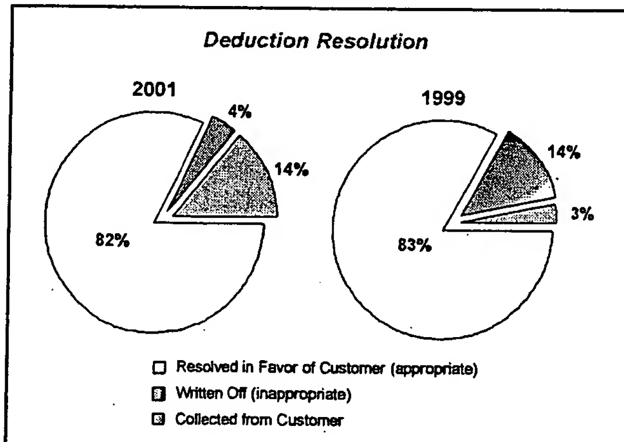


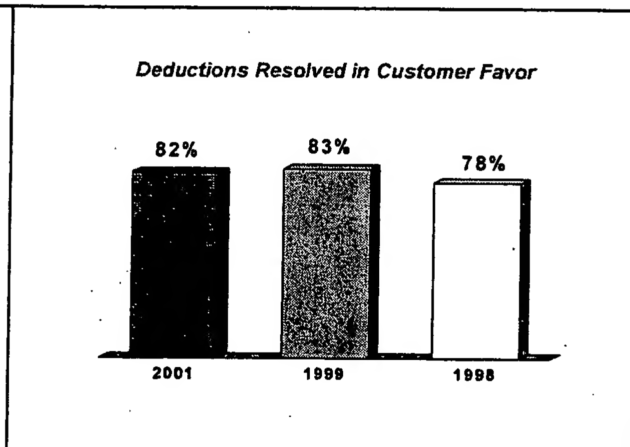


Sixty-four percent of this year's companies accept deductions as an approved form of payment, up from 56 percent in the previous survey. Of these companies, an average of 72 percent of their total annual deductions are planned or encouraged as a form of payment.

Resolving Deductions

Consistent with all previous surveys, manufacturers report that 82 percent of deductions are resolved in the favor of the customer. However, this year's companies report collecting a larger percentage of deductions from customers and writing off a smaller percentage than in previous years.



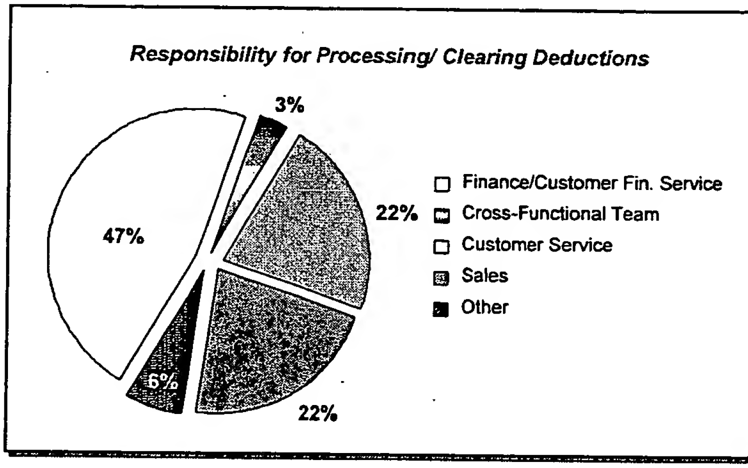


Managing Deductions

Deduction management systems are used by 92 percent of companies surveyed. This is a substantial increase from the 71 percent of companies that reported using a deductions management system in the previous survey. Companies are split evenly between using propriety, in-house systems and third-party systems.

Seventy-two percent of this year's companies say they use holding accounts – accrual or pre-payment programs – for trade promotions. Of these companies, 59 percent say that the programs have not successfully reduced deductions.

Finance, customer service or sales are responsible for processing and clearing deductions in 91 percent of this year's companies. Cross-functional teams were responsible for processing and clearing deductions in more companies responding to the previous survey.



Deductions are managed primarily by a dedicated functional area at headquarters or by customer account teams. Some companies indicate that brokers are responsible. An interesting comparison among the three main deductions management styles can be made for this year's participants.

Deduction Management Style	Dedicated HQ Function	Customer Team	Brokers
Deduction Dollars % of Total Sales	11.0%	8.0%	8.3%
Open Deduction Dollars % of Average Monthly Accounts Receivables	16.3%	8.8%	31.1%
Number of Total Survey Companies	12	8	3
Number of Top 10 Companies	3	5	2

The customer team and broker approaches appear to be most successful at minimizing the annual deductions level. The customer team approach also appears to provide faster resolution, as evidenced by the lowest percentage of open deductions to average monthly receivables.

All companies also responded that they have an automatic dollar threshold below which deductions are written off and no further research is conducted. Similar to previous surveys, slightly more than half of the companies – 52 percent – know their cost to clear a deduction.

For those companies, the cost to clear a deduction includes, in order of frequency of mention:

- Customer service time.
- Sales and support staff time.
- Facilities costs.
- Overhead costs, including materials and systems.
- Accounting and finance time.
- Benefits.
- Broker time.

Facilities costs and overhead costs are mentioned by a larger percentage of respondents this year than in the previous survey.

All surveyed companies review post-audit deductions before determining whether to accept or charge the deduction back to the customer. An average of 65 percent of post-audit deductions are determined to be valid.

Improving Invoice Deductions

Companies participating in the survey describe several factors that increase the number of deductions.

- Customers are more aggressive in taking deductions.
- Internal structure changes taking place, including mergers and acquisitions.
- Companies moving to billback allowances and from off-invoice deals.
- Customers are increasingly using third-party auditor firms.
- New product introductions and related slotting fees can trigger an increase in deductions.
- Pricing and promotional deal complexity also are factors.

(Listed in order of frequency of mention by all participating manufacturers.)

Companies report the following actions taken to reduce the number of deductions.

- Improving communication.
- Increasing use of deduction measurements and analytics, including system improvements.
- Focusing on price matching and data synchronization.
- Issuing checks for trade allowances and increased use of prepaid programs.
- Simplifying pricing and promotional structure.
- Increasing off-invoice deals.

(Listed in order of frequency of mention by all participating manufacturers.)